B.C. Pacific Capital Corporation

Annual Report

1996

Contents

B.C. Pacific Capital Corporation is a British Columbia based financial and investment corporation providing mezzaning bridge loans and management services to corporations encountering financial difficulties, requiring merger and acquisition advice or operational evaluation. B.C. Pacific also uses its own capital to invest in undervalued companies, primarily in the natural resource, real estate and financial service area where management initiatives can enhance longer term prospects.

Notice of
Annual General Meeting

The Annual General Meeting of
Shareholders of B.C. Pacific Capital Corporation
will be held at 1500, 1055 West Georgia Street
Vancouver, B.C. on June 26, 1997 at 2:00 p.m.

Report to Shareholders

Financial Results

B.C. Pacific maintained a satisfactory financial performance during 1996. Net income for the year was $15.3 million compared with $16.1 million in 1995. After providing for dividends on the Company's preferred shares, one of which is based on a floating interest rate, earnings per Class A subordinate voting share and Class B common share increased slightly to 1.4¢ compared with 1.2¢ in 1995. At the end of 1996, B.C. Pacific remained in a strong financial position, with $165 million of shorter term investments and is well positioned to take advantage of new merchant banking opportunities that provide both a current return and enhance long-term value for shareholders.

Merchant Banking Activities

With the completion of several major management services assignments early in 1996, and in light of an improving economy, particularly in the natural resources sector, additional resources were allocated to the expansion of B.C. Pacific's merchant banking operations and the development of new business opportunities.

Several new financial assignments were initiated and successfully concluded during the year. These assignments included working with a large base metal mining company to raise both debt and equity capital for the expansion of their business activities and providing strategic advice on a significant acquisition. This activity resulted in increasing clients asset base by over $500 million.

Several asset workout and restructuring assignments continued during the year on behalf of shareholders of a small business investment fund. This assignment involved working with shareholders of companies in the construction products, food and dairy and cable communication industries and it is expected these assignments will be completed during 1997.

During 1996, our merchant banking operation was focused on providing short-term bridge loans to facilitate transactions for clients within four industries - natural resources, power generation, real estate and financial services - with emphasis being placed on the oil and gas and mining sectors. A number of potential transactions were reviewed ranging up to $100 million and one was completed to a company in the oil and gas sector.

While the growth of our merchant banking operations is important to improving the total return on our capital base, we will exercise prudence in making financial commitments as at this state of the business cycle there is a large amount of capital pursuing investments which increases asset prices, and limits the number of quality opportunities available.

Investment Activities

B.C. Pacific invests in securities of a number of public and private corporations. Our objective is to earn an acceptable rate of return from dividends and capital appreciation without exposure to unreasonable risk. These investment activities are supported by an ongoing research program to determine the underlying values for each of the companies selected which comprise core investment positions.

As B.C. Pacific's investment portfolio is weighted to natural resources, financial services and real estate companies, earnings in these investments and their share prices continued to show cyclical improvement as the economy emerged from the latest recession. During the year, several security positions reached levels where underlying values were fully reflected and were sold. While further increases in share prices may have been achievable, the high overall market valuation and softening of commodity prices suggested that caution is now appropriate.

Corporate Investments

B.C. Pacific maintained its 50% interest in the MGS Partnership and continued to hold a large parcel of commercial land strategically located in central Toronto. MGS is managed by Graywood Developments and is involved in the development of residential real estate in Toronto and Vancouver.

Real estate values began to recover in Toronto during the year where continued job growth and low interest rates led to increased housing sales and prices began to improve and may reach levels during 1997 that will warrant accelerating our sales program.

BRL Enterprises Inc. ("BRL") continued to achieve satisfactory financial results during 1996. Net income for the year was $2,324,000 or $0.40 per share compared to $2,160,000, or $0.37 per share in 1995. During the last three years, earnings have continued to increase while cash has been preserved in a conservative investment portfolio. BRL continued in its search for investment opportunities that will profitably establish a new strategic focus and long-term direction. There is a well defined acquisition strategy and set of criteria in place for identifying investments, primarily in the private sector where value may be enhanced by becoming a public company. Opportunities were pursued in the mining, forest products, financial services and industrial service sectors. While management has recently identified several new investment opportunities and is receiving a number of proposals, patience will continue to be exercised particularly

as purchase price multiples in many sectors continue to increase.

Outlook

Our principal objective for 1997 is to expand our merchant banking activities with a focus on providing short-term mezzanine bridge loans for clients requiring short-term capital to facilitate a transaction. Asset workout and financial restructuring from companies experiencing short-term financial difficulties will also be pursued. With the capital markets focused primarily on searching for longer term equity growth opportunities, we believe a number of opportunities will arise which will fit B.C. Pacific's merchant banking mandate.

On behalf of the Board of Directors.

BRIAN G. KENNING
Managing Partner
and Chairman

TERRENCE A. LYONS
Managing Partner
and President

May 13, 1997

Business Activities

Bridge and Mezzanine Loans

B.C. Pacific Capital Corporation ("B.C. Pacific") will provide bridge and mezzanine loans on a short-term basis to corporations and individuals to assist them in executing capital market transactions, acquisition or divestiture activities or to otherwise further the client's business strategies. While the time period for which capital is committed varies according to the nature of each transaction, B.C. Pacific endeavours to ensure repayment terms of between three and 12 months. Capital provided is normally protected by the underlying security of the assets being financed or through client guarantees.

B.C. Pacific earns a risk-adjusted banking return on any capital provided. In addition, options and conversion privileges to participate as equity investors are obtained with respect to the assets financed.

Corporate Restructurings

Corporate restructuring activities include: providing advice and assistance regarding the repositioning of assets to improve profitability; and the realigning of debt and equity to better fit the pattern of current and future earnings. This often includes working out an acceptable business plan; preparing information packages; negotiating with lenders; and utilizing B.C. Pacific's own capital in an equity or debt position.

Loans and Asset Workouts

A workout will often be undertaken when lenders and management cannot agree on the future direction of the business or debt repayment terms. In certain circumstances, B.C. Pacific may acquire loans owing to a company's original lenders usually at a discount in order to increase the Company's financial flexibility, and enhance operations.

Merger and Acquisition Services

B.C. Pacific provides merger and acquisition advice to companies expanding their activities, or those wishing to down size and sell off mature businesses or underperforming assets. This involves working with clients to clarify their objectives, determine appropriate strategies and execute the chosen course of action.

Investment Activities

B.C. Pacific invests in the securities of a wide range of public and private corporations. Its objective is to earn an acceptable rate of return from dividends and capital appreciation without exposure to unreasonable risk.

Financial Analysis and Review

During the last five years, B.C. Pacific Capital Corporation ("B.C. Pacific") has been conducting merchant banking and investment activities, primarily in Western Canada with corporate and individual clients and affiliates. During 1996, B.C. Pacific continued its merchant banking activities with particular emphasis on providing mezzanine bridge loans. In addition, several new management services assignments were pursued. B.C. Pacific maintained its 50% in investment in the MGS Partnership which is involved in the development of residential real estate in Vancouver and Toronto, and its 62.7% interest in BRL Enterprises Inc.

Balance Sheet Analysis

B.C. Pacific's total assets decreased 1.0% to $262.7 million from $263.4 million as outlined below:

$ Millions	1996	1995
Cash and financial assets	197.2	198.0
Corporate and real estate investments	64.0	64.0
Other Assets	1.4	1.4
	262.6	263.4
Secured debt and other payables	96.4	98.2
Minority Interest	14.3	13.5
Shareholders' Equity	151.9	151.7
Total Liabilities and Shareholders' Equity	262.6	263.4

Cash and financial assets remained virtually unchanged during the year. B.C. Pacific's investment portfolio is weighted to natural resources, financial service and real estate companies. Earnings in these investments are cyclical and tied to underlying commodity prices and interest rates. Accordingly their share prices will continue to experience price fluctuations. During the year, prices of several investments increased to levels where positions were sold and cash reserves increased.

Investments & Deposits ($Millions)	1996	1995
Deposits & Other	$108.3	$103.6
Preferred Shares	30.4	30.3
Common Shares	26.5	24.1
	$165.2	$158.0
Corporate Investments		
Real estate holdings	$ 25.0	$ 25.0
MGS Partnership	38.9	38.9
	$ 63.9	$ 63.9

Corporate investments remained unchanged from the prior year. MGS is managed by Graywood Developments Limited and is involved in the development of residential real estate in Vancouver and Toronto. Condominium sales of the Toronto projects began to improve late in the year in line with the Ontario economy and prices started to increase.

With an improving commercial real estate market in Toronto, the Company maintained its investment in a strategically located parcel of commercial property in downtown Toronto. This project is being held for redevelopment over the next several years.

The Corporation has maintained its 62% investment in BRL. BRL's investment portfolio remained largely unchanged during the year although several new strategic investments were pursued.

Income Statement Analysis

Revenues

Revenues resulting from dividends, capital gains, interest and management fees decreased slightly from $24.0 million in 1995 to $22.0 million in 1996. A decline in interest rates on the Company's interest bearing investments and reduced dividends from securities sold during the year were mostly offset by capital gains from the sale of securities. In addition, $2.6 million in BRL revenues were consolidated in 1996.

Expenses

Interest expense decreased from $5.6 million in 1995 to $3.9 million in 1996. Secured debt was largely unchanged during the year however, decline in interest rates resulted in an overall reduction in the total interest expense. Administrative expenses increased slightly during the year, primarily as a result of a large increase in the costs incurred by B.C. Pacific for the Corporation's capital tax payments in Ontario and British Columbia. This increase was offset by significantly lower general and administrative expenses. In 1997, general and administrative expenses will continue to be tightly controlled.

Net Income

Net income decreased to $15.3 million in 1996 from $16.1 million in 1995. As a result of its restructuring completed during 1989, the Corporation has issued $150 million of participating preferred shares which in addition to a regular cumulative dividend of 8% are entitled to participate with the Class A and Class B common shares in any common share dividend declared in any year after the Class A and Class B common shares receive dividends equal to $0.20 per share in the case of the Series I and $0.04 per share in the case of the Series II preferred shares. Any additional dividends if paid, in any year, will be paid on all of the participating preferred shares and Class A and Class B common shares with the dividends paid on the participating preferred shares Series I being 10 times and the Series II being 50 times the amount per Class A and Class B common share.

After providing for a regular dividend of 8% on the Class AAA, Series I and II participating preferred shares, and one-half of the bank prime rate plus 1% on the Class AAA, Series III preferred shares, earnings per Class A subordinated voting share and Class B common share were 1.4¢ compared with 1.2¢ in the prior year. All classes of preferred shares were outstanding for the full year. As a result, net income available to the Class A and Class B common and participating preferred shares was relatively constant at $0.2 million in 1995 and 1996. In 1996, there were no earnings attributable to the Series II participating preferred shares which participate on a 50 to 1 basis.

Liquidity and Capital Resources

Cash flow from operations decreased to $16.2 million from $19.1 million due primarily to a reduction in non-cash working capital items at BRL Enterprises. At December 31, 1996 the Corporation had $165.1 million of shorter term assets available to repay demand indebtedness of $63.0 million. The Corporation's deficit at the end of the year was reduced to $85.6 million from $85.9 million in 1995. It is expected that this deficit will continue to be slowly reduced in the future as the Corporation maintains its profitability. The Corporation's operating cash requirements are limited to the payment of interest on loans payable and dividends on the Corporation's preferred share capital. At December 31, 1996, the Corporation had a secured demand facility of $63.0 million outstanding. The Corporation's operating cash requirements can be met from dividends and interest earned on the Corporation's investments. The Corporation also continues to maintain an operating line of credit which is satisfactory to meet its investment requirements.

Business Environment and Outlook

B.C. Pacific enters 1997 with a strong asset base and improved liquidity resulting from the sale of selective investments that reached full value during the year. As a result, B.C. Pacific is now pursuing new merchant banking initiatives with specific emphasis on responding to clients' requirements for short-term bridge financing and examining several private asset workout opportunities. The Company will however continue to take a cautious approach to new initiatives and selectively allocate its capital and concentrate on those areas where its management expertise can be best applied.

Consolidated Balance Sheets

Years Ended December 31, 1996 and 1995

(in thousands of dollars)	1996	1995
Assets		
Cash and term deposits	$ 746	$ 373
Marketable securities and deposits	165,197	158,072
Loans receivable	31,366	39,598
Corporate investments (note 2)	63,965	63,965
Other assets	1,373	1,373
	$262,647	$263,381
Liabilities and Shareholders' Equity		
Payables and provisions	$ 33,404	$ 31,243
Secured debt (note 3)	63,006	67,000
Non-controlling interest	14,322	13,450
	$110,732	$111,693
Shareholders' Equity:		
Share capital (note 4)	237,550	237,550
Deficit	(85,635)	(85,862)
	151,915	151,688
	$262,647	$263,381

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Brian G King

BRIAN G. KENNING,
Director

Terry A. Lyons

TERRENCE A. LYONS,
Director

Consolidated Statements of Income and Deficit

Years Ended December 31, 1996 and 1995

(in thousands of dollars)	1996	1995
Revenues	$22,004	$24,050
Expenses		
Interest	3,939	5,586
General and administrative	1,914	1,832
Non-controlling interest	872	460
	7,878	6,725
Net income	$15,279	$16,172
Deficit, beginning of year	85,862	86,055
Net income	(15,279)	(16,172)
Preferred share dividends	15,052	15,979
Deficit, end of year	$85,635	$85,862

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Years Ended December 31, 1996 and 1995

(in thousands of dollars)	1996	1995
Cash provided by (used in):		
Operations		
Net income for the year	$ 15,279	$ 16,172
Non-controlling interest, an item not involving cash	872	460
Net change in non-cash operating working capital	(39)	2,500
	16,112	19,132
Financing		
Secured debt	(1,794)	22,313
Preferred share dividends	(15,052)	(15,979)
	(16,846)	6,334
Investments		
Corporate investments	—	(25,011)
Loans receivable	8,232	(19,450)
Marketable securities and deposits	(7,125)	19,092
	1,107	(25,369)
Increase in cash during the year	373	97
Cash and term deposits, beginning of year	373	276
Cash and term deposits, end of year	$ 746	$ 373

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 1996 and 1995

(in thousands of dollars, except for per share information)

1. Significant Accounting Policies

The financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada. The significant accounting policies followed by the Company are summarized below:

(a) Principles of consolidation:

The Company's consolidated financial statements include the accounts of the Company, its 62.7% interest in BRL Enterprises Inc. ("BRL) and its wholly-owned subsidiaries.

(b) Investments:

Investments are valued at the lower of cost and their estimated net realizable value with any adjustment required charged against income.

(c) Revenues:

Revenues include equity accounted income from affiliates, dividends, interest, fees, and income or losses on merchant banking transactions that are substantially complete and collection is assured.

(d) Other assets:

Other assets include the Company's interest in oil and gas properties which are recorded at the lower of cost, determined by application of the full cost method of accounting, and estimated net realizable value.

(e) Foreign currencies:

The Company's policy is to maintain balanced foreign currency positions with all assets and liabilities in foreign currencies translated into Canadian dollars at the year end exchange rates. Net gains and losses resulting from the translation are included in income.

2. Corporate Investments

Corporate investments includes an investment in the MGS Partnership and real estate in Toronto. The MGS Partnership is involved in the development of residential real estate in Vancouver and Toronto.

3. Secured Debt

The secured debt is secured by fixed and floating charges over all of the Company's assets. The average effective interest rate in effect at December 31, 1996 was 6.5%.

4. Share Capital

Authorized	
20,000,000	Class A Preferred shares
20,000,000	Class AA Preferred shares
20,000,000	Class AAA Preferred shares
200,000,000	Class A Subordinate Voting shares without par value
100,000,000	Class B Common shares without par value

Issued and outstanding		1996	1995
3,000,000	Class AAA cumulative, participating Preferred shares, Series I, bearing a fixed dividend rate of 8%	$ 75,000	$ 75,000
3,000,000	Class AAA cumulative, participating Preferred shares, Series II, bearing a fixed dividend rate of 8%	75,000	75,000
3,000,000	Class AAA cumulative Preferred shares, Series III, bearing a dividend rate of one-half of the prime rate plus 1%	75,000	75,000
11,684,384	Class A Subordinate Voting shares	11,385	11,385
1,895,958	Class B Common shares	1,165	1,165
		$237,550	$237,550

The Company had outstanding 500,000 warrants to purchase 500,000 Class A Subordinate Voting shares. These warrants expired on January 31, 1996 and no warrants had been exercised to the date of expiry.

Notes to Consolidated Financial Statements

Continued

5. Income Taxes

No provision for income taxes has been provided due to the application of prior years' losses. Non-capital losses of approximately $10,000 (1995 – $5,000) are available to reduce taxable income that may arise in the future. The benefit of these losses, which can be used to reduce taxable income in the future, has not been reflected in these financial statements.

6. Related Party Transactions

In the ordinary course of business, the Company carries on certain transactions with its affiliates which are conducted on normal business terms. Included in a subsidiary are investments and deposits of affiliates of $41,407 (1995 – $28,807). Loans receivable include $26,000 (1995 – $26,000) of loans to affiliates and $428 (1995 – $1,507) of loans to executives of the Company. Interest expense was paid and the secured debt due to The Edper Group Limited, an affiliate, and $3,939 (1995 – $5,586) of the Company's interest expense. Revenues include $5,300 (1995 – $15,800) received from affiliates.

7. Net Income Per Class A and Class B Common Share

Net income per Class A and Class B common share is calculated using the weighted average number of Class A and Class B common and participating preferred shares outstanding and after the payment of a regular dividend of 8% on the Class AAA Series I and II participating preferred shares and one-half of the bank prime rate plus 1% on the Class AAA Series III preferred shares.

The Class AAA participating preferred shares Series I and II are entitled to receive cumulative preferential cash dividends of 8% per annum and will participate with the Class A and Class B common shares in any common share dividend declared in any year after the Class A and Class B common shares receive dividends equal to $0.20 per share in the case of the Series I and $0.04 per share in the case of the Series II preferred shares. Any additional dividends in the year will be paid on all of the participating preferred shares and Class A and Class B common shares with the dividends paid on the participating preferred shares Series I being ten times and the Series II being fifty times the amount per Class A and Class common share.

	1996	1995
Net income for the year	$15,279	$16,172
Preference share dividends	15,052	15,979
Net income available to Class A and Class B common and participating preferred shares	227	193
Net income per Class A and Class B common share	$ 0.014	$ 0.012
Earnings per participating preferred share	$ —	$ —
Weighted average participating shares outstanding	163,580,342	163,580,342

8. Financial Instruments

The carrying value of marketable securities and deposits approximates quoted market value at December 31, 1996 and 1995.

The carrying value of the loans receivable and the secured debt approximates their fair value as interest earned or incurred thereon approximates market rates and/or because of the short maturity of the instruments.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and other financial information have been prepared by the management of the Corporation who are responsible for the integrity and objectivity of the statements. To fulfil this responsibility, the corporation maintains appropriate systems of internal control to ensure that its costs, reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable assurance that relevant and reliable financial information is produced. These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's judgement. The financial information presented throughout this annual report is consistent with the information contained in the corporation's consolidated financial statements.

The consolidated financial statements have been further examined by the board of directors and by its audit committee which meets with the auditors and management on a regular basis to review the activities of each. The audit committee reports to the board of directors and is comprised of three directors who are not officers of the Company.

Brian G. Kenning

BRIAN G. KENNING

Director & Chairman

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of B.C. Pacific Capital Corporation as at December 31, 1996 and 1995 and the consolidated statements of income and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Company Act (British Columbia) we report that, in our opinion, these principles have been applied on a consistent basis.

KPMG

Chartered Accountants

Vancouver, Canada

April 25, 1997

Directors

J. BRUCE FLATT

President and Chief Operating Officer
Brookfield Properties Limited

ROBERT J. HARDING

President and Chief Executive Officer
The Edper Group Limited

HOWARD J. KELLOUGH, Q.C.

Barrister & Solicitor
Fraser & Beatty

BRIAN G. KENNING

Managing Partner and Chairman
B.C. Pacific Capital Corporation

TERRENCE A. LYONS

Managing Partner and President
B.C. Pacific Capital Corporation

BRUCE McKAY

Barrister & Solicitor
Lang Michener Lawrence & Shaw

Officers

Brian G. Kenning
Managing Partner and Chairman

Terrence A. Lyons
Managing Partner and President

Bruce M. McKay
Corporate Secretary

Nicole Bourgouin
Assistant Secretary

Corporate Information

LEGAL COUNSEL
Lang Michener Lawrence & Shaw
Vancouver, B.C.

AUDITORS
KPMG
Vancouver, B.C.

STOCK TRANSFER AGENT & REGISTRAR
Montreal Trust Company
Vancouver, B.C.

STOCK EXCHANGE
Vancouver Stock Exchange

TICKER SYMBOLS
Common Shares: BPQ.A, BPQ.B

Head Office

Suite 1632, 1055 West Georgia Street
P.O.Box 11179, Royal Centre
Vancouver, British Columbia
Canada V6E 3R5
Telephone: (604) 669-3141
Facsimile: (604) 687-3419

Head Office

Suite 1632, 1055 West Georgia Street

P.O.Box 11179, Royal Centre

Vancouver, British Columbia

Canada V6E 3R5

Telephone: (604) 669-3141

Facsimile: (604) 687-3419

Printed in Canada